# Can the Report of the 'Five Presidents' Save the Euro?

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**Abstract:** The international financial crisis of 2007/2008 and the 'great recession' that followed, as well as the euro crisis, have highlighted a range of problems and difficulties that are related to some fundamental weaknesses of the euro. There are well-known difficulties of macroeconomic policies under the Stability and Growth Pact, and the more recent Fiscal Compact, including their deflationary nature and the 'one size fits all problem' of imposing common deficit requirements on all European Economic and Monetary Union countries. There are also problems with monetary policy in view of the fact that the European Central Bank does not possess the functions of a central bank properly, especially that of lender of last resort. We discuss the reforms that are needed, most important of which is the requirement for a substantial Economic and Monetary Union-level fiscal policy as part of political integration, along with a banking union. In this context the recent proposals of the 'Five President's Report' (European Commission, 2015b; see, also, European Council, 2012) are relevant and the question is whether they will save the euro. It is concluded that the 'Five President's Report' is unlikely to resolve the deep-seated problems, casting a dark shadow over the future of the euro.

**Keywords**: Euro Macroeconomic Policies, Five President's Report

## 1. Introduction

The international financial crisis of 2007/2008 and the 'great recession' that emerged subsequently along with the euro crisis have highlighted a range of problems with the 'euro project' and exposed critical gaps in its stability. These problems and difficulties are related to some fundamental weaknesses of the euro. There are well-known difficulties of macroeconomic policies under the Stability and Growth Pact (SGP), and the more recent Fiscal Compact (FC), including its deflationary nature and the 'one size fits all problem' of imposing common deficit requirements on all countries. There are also problems with monetary policy in view of the fact that the European Central Bank (ECB) does not possess the functions of a proper central bank especially that of lender of last resort. Reforms are important and urgent. The nature of the reforms and their impact on the operations of the euro area are examined. We discuss the reforms that are needed from which the general conclusion is that they are extremely urgent, but unfortunately they might not be carried through. This discussion also includes the requirement for a substantial European Economic and Monetary Union (EMU)-level fiscal policy as part of political integration, along with a banking union. In this context the recent proposals of the 'Five President's Report' (European Commission, 2015b; see, also, European Council, 2012) are relevant and the question is whether they will save the euro. It is concluded that the deep-seated problems are unlikely to be resolved by the suggestions and conclusions of the relevant report to which we have just referred. It is thereby concluded that a dark shadow is cast over the future of the euro.

It is also worth noting at this stage that the EMU approach in terms of its economic policies relies on the theoretical dimension of the New Consensus Macroeconomics (NCM; see, for example, Arestis, 2007). As such, its key elements can be briefly summarised as follows: the market economy is viewed as essentially stable, and that macroeconomic policy (particularly discretionary fiscal policy) may well destabilise the market economy. Markets, and particularly the financial markets, make well-informed judgements on the sustainability of economic policies, especially so in the current environment of open, globalised, capital and financial markets. Monetary policy has emerged as one of the most critical government responsibilities. It is a most flexible instrument for achieving medium-term stabilisation objectives: it can be adjusted quickly in response to macroeconomic developments. Indeed, monetary policy is the most direct determinant of inflation, so much so that in the long run the inflation rate is the only macroeconomic variable that monetary policy can affect. Fiscal policy is no longer viewed as a powerful macroeconomic instrument in view of the Ricardian Equivalence Theorem (see Arestis, 2012). Monetary policy has, thus, been upgraded and fiscal policy has been downgraded. Fiscal policy can only serve to achieve a balanced budget. Monetary policy can be used to meet the objective of low rates of inflation (which are always desirable in this view, since low, and stable, rates of inflation are conducive to healthy growth rates). However, monetary policy should not be operated by politicians but by experts (whether bankers, economists or others) in the form of an 'independent' Central Bank.

The EMU theoretical framework entails the view that inflation is best tamed through interest rate manipulation without at the same time forgetting money supply: there is, thus, the 'close to 2 per cent from below' and the reference value of 4.5 percent for M3 money supply in place. This, it is hoped, improves communication between the public and policy-makers and provides discipline, accountability, transparency and flexibility in monetary policy. The EMU model, then, differs from the strict inflation targeting of the NCM approach. It contains: an economic analysis, which is an assessment of price developments and the risks to price stability over the short to medium term; and a monetary analysis, which analyzes monetary developments for the information they contain about future price developments over the medium and long term, exploiting the long-run link between money and prices. Deviations from the 4.5 reference value for the M3 monetary growth would 'signal risks to price stability'. Monetary analysis is utilized by the ECB as a 'cross check' for consistency between the short-term perspective of economic analysis with the more long-term perspective.

We address these issues in this contribution where we first visit, in section 2, recent relevant developments, especially the ones that emerged following the euro crisis. This is undertaken to illustrate the nature of the 'euro project' and also to indicate how some problems were left unaddressed at the start of the project and have now emerged to undermine the edifice of the EMU. Section 4 considers the possibility of political integration, which would enable the euro to function effectively. We discuss in this sense the 'Five Presidents' Report that aims to achieve gradually an 'Economic, Financial and Fiscal Union'. We summarise and conclude in section 4.

## 2. Recent Relevant Developments

Following the euro crisis and since then a number of developments have taken place. The most important ones from the point of view of this contribution have been the following.

In terms of the Stability and Growth Pact (SGP), the European Leaders agreed at their meeting in Brussels on the 8th/9th of December 2011 to adopt tougher sanctions on the euro-area countries that break the 'new' rules of the revised SGP, the Treaty on Stability, Cooperation and Governance, what is now called the 'fiscal compact' (FC). This is an inter-government treaty, not a change to the European Union (EU) treaties, whereby tax and spending plans will be checked by the European officials before national governments intervene. Its main ingredients are the following: a firm commitment to 'balanced budgets' for the euro area countries, defined as a structural deficit of no greater than 0.5% of gross domestic product, which should be written into the national constitutions; automatic sanctions for any euro area country whose deficit exceeds 3% of GDP; and a requirement to submit their national budgets to the European Commission, which will have the power to request that they be revised. In effect the FC retains the principles of the previous SGP version but with the added one that countries that break the deficit rules would actually be punished in some way.

The European Union (EU) summit meeting, 28/29 June 2012, took a number of decisions: banking licence for the European Stability Mechanism (ESM) that would give access to the ECB funding and thus greatly increase its firepower; banking supervision by the ECB; a 'growth pact', which would involve issuing project bonds to finance infrastructure; two long-term solutions were proposed: one was a move towards a Banking Union and a single euro area bank deposit guarantee scheme; another was the introduction of euro bonds and euro bills. Germany resisted the latter two proposals, arguing that it would only contemplate such action under a full-blown fiscal union.

The ECB announced in July 2012 that it would do 'whatever it takes' to save the euro, as the President of the ECB promised then, and also confirmed it subsequently after the ECB's first meeting in 2014 (Thursday 9th of January) of its rate-setting governing council. That statement by the ECB President was considered as a turning point in the euro area sovereign debt crisis. In effect the ECB was willing and able to act quickly and decisively if inflation or money market rates got out of line. Indeed the President stressed the proposition that monetary policy would remain ultra loose and accommodative 'for as long as necessary', with the key ECB interest rates to be kept as they were then, or even at lower levels, for an extended period of time. The July 2012 is the ECB's 'forward guidance', which is the promise to keep interest rates at their current levels for an extended period, with the adamant statement that the ECB stands ready to maintain the high degree of monetary accommodation and even undertake more decisive action if conditions worsen.[1]

The ECB developed the OMT bond-buying tool, only in secondary markets though, to back up that pledge, which was unveiled in September 2012. The OMT was never tested. There was also the problem of unknown finer details of the programme. In addition, there was the condition that under OMT the ECB could buy unlimited amounts of short-maturity bonds in the secondary market of any country that signed up to fiscal conditions. What really the latter conditions meant was that for the OMT to be implemented it would be relied upon the relevant governments signing up for austerity-and-reform programmes. Instead of publishing OMT's legal documentation 'soon' after September 2012, the ECB shifted stance to 'only publish when a country applies'.

Germany's Central Bank, the Bundesbank, opposed OMT in that it was close to monetary financing, namely direct borrowing by governments from their central banks, which was banned by the Maastricht treaty; although the treaty did permit the ECB to buy public debt in the secondary markets.[2] The Bundesbank actually never warmed to the OMT. In fact the

[1] That was a rather 'implicit forward guidance', unlike the more 'explicit forward guidance' of the USA Fed and the UK Bank of England, as formulated in August 2013, which was an explicit link to unemployment. The unemployment targets, however, were not to be treated as 'automatic triggers'. Indeed, they were modified in February 2014 with no explicit link to unemployment anymore.

[2] The opposition to OMT in the government bond markets relies on the argument that by buying government bonds the ECB increases the money supply thereby leading to inflation (this is not necessarily the case, though). Also that such action can have undesirable fiscal implications in the sense that if governments failed to service their debt, the ECB would suffer losses, which would have to be borne by taxpayers. Such losses, though, may be necessary to guarantee financial stability. Moral hazard is, of course, another argument in that OMT would encourage governments to issue too much debt. In the case of the ECB, OMT is conditional on countries applying through the ESM, the euro area's permanent bailout fund, which would impose conditions on the

matter was referred to the German constitutional court, which in its turn referred the ECB OMT scheme to the European Court of Justice (ECJ), the highest legal court in the EU, on 7 February 2014. The view of the German constitutional court was still that the OMT programme was not covered by the mandate of the ECB; it was, therefore, 'incompatible with primary law' and it violated the German constitution (see the relevant report in the Financial Times, 8 February 2014). It would deprive the German government of its fiscal sovereignty for it would force it to accept any generated losses. The court considered OMT as 'monetary financing' or 'debt monetisation', whereby the Central Bank prints money to finance sovereign debt; this in this view was outlawed under European treaties. This incident raised questions over the OMT's legality thereby providing ammunition to the ECB's critics and prolonging legal uncertainty over the OMT. The German constitutional court concluded that only the EJC could decide on the matter. It is clear that both the Bundesbank and the Germany's constitutional court registered their strong objection to monetary policies underpinning the euro.

It is worth noting that another problem emerged, which was related to objections to the proposed Banking Union. The Banking Union is set to face a challenge in Germany's constitutional court. Five German academics filed a case, and claimed that Banking Union was illegal and contrary to the German constitution because it was created without the necessary treaty changes. This case could take months winding its way through court hearings but will force officials from the European Commission and the ECB to defend the Banking Union.

On the 14th of January 2015, the ECJ released an Advocate General opinion on the legality of the ECB's OMT. The ECJ found OMT in line with the EU law, with a final ruling issued on the 16th of June 2015, declaring the ECB bond-buying plan legal. The ECB at its meeting on the 22nd of January 2015 decided to undertake QE. Under this scheme the ECB would purchase €60 billion of euro area bonds and other safe financial assets, every month between March (2015) and September (2016), or until inflation is back to the ECB's inflation target.[3] This implies total purchases worth around €1.1 trillion, equal to around 10% of the EMU's GDP. The ECB started the QE on 9 March 2015. One of the chief aims of the ECB QE was to stimulate bank lending and in turn encourage expansion of investment in the EMU countries. QE requires the ECB to buy sovereign or high quality bonds. This is undertaken with the objectives of, in addition to enabling the banking sector to prevent a contraction in credit from lending, also stimulating the 'portfolio channel'. The latter by suppressing the free-risk interest rate of government bonds, and other relevant high-quality assets, should enhance the price of all other assets, which include credit, equities and other. Whether it would be successful is an interesting and relevant question.

Investment is undertaken on the basis of healthy growth prospects and potential profits rather than lower interest rates. In any case, investment prospects in the euro area have been modest to say the least. Actually investment collapsed in the EMU following the 2007/2008 international financial crisis. It picked up briefly in 2010-2011 but it has stagnated since then and more recently. In any case, EMU banks, insurance groups and pension funds need the

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country applying for support. In times of crises, though, the central bank should provide unlimited support at a price, which would take care of the moral hazard problem, without conditions. De Grauwe (2013), provides further details on all the issues covered in this footnote. In addition De Grauwe (op. cit.) provides clear evidence that the relevant Treaty does not forbid the ECB to buy government bonds in the secondary markets.

[3] The ECB inflation target is 'close to 2 per cent from below' of the Harmonised Index of Consumer Prices (HICP). HICP is compiled according to a methodology that has been harmonised across the EU countries. The euro area HICP is a weighted average of price indices of member states who have adopted the euro; a geometric mean is used. HICP excludes mortgage interest payments, council taxes and other housing costs.

relevant assets for QE purposes to meet their capital requirements. This could imply that the ECB would have to pay higher price to encourage institutions to sell their bonds, which would imply lower if not negative yields. So banks and other relevant financial institutions may not be persuaded to buy riskier assets, such as equities, to boost the economy. ECB may thus not be successful (see, also, Financial Times, 'European QE may not be live up to Draghi's hopes', 9 March, 2015). As it is also reported in the Financial Times (10 August, 2015), and referring to data from the EU statistical office (the Eurostat), investment in equipment and infrastructure in 2008 accounted for 23 percent of the euro area GDP; in 2014 it was 19.5 percent. It is suggested that the business sector has been using profits to repay debt, fund share repurchases or build up cash piles, instead of investing, a process that continues. More recent Eurostat data reveal that industrial production in the euro area fell by 0.2 percent, on month to month calculations, in May 2015 (while in April 2015 there was no growth); still worse it was reduced by 0.4 percent in June 2015. Further Eurostat data, released in August 2015, show that the fragility of the euro area recovery continued despite the massive QE bond-buying by the ECB. The euro area is struggling to recover from the economic crisis: the year to July 2015 figures show inflation at 0.2 percent (and fell to negative territory by October 2015), much lower than the 'below but close to 2 percent' ECB target, and GDP growth increased by only 0.3 percent (undershooting analysts' estimates).

More recently, since the introduction of the QE in the euro area, the question has arisen as to whether the ECB would have to undertake more QE in view of disappointing euro area growth and inflation. In fact the President of the ECB was expected to announce further QE stimulus (see, for example, Financial Times, 'Focus shifts to further ECB stimulus', 23 September 2015), although the ECB President stated at the appearance before the committee on economic and monetary affairs at the Brussels European parliament (23 September 2015) that "We will … monitor closely all relevant incoming information and its impact on the outlook for price stability" before taking further QE (as reported in the Financial Times, 'Draghi wary over need for further dose of easing', 24 September, 2015). However, and in view of the disappointing and fragile economic developments, the President of the ECB announced after the meeting of the governing council of the ECB, 22 October 2015, that they were ready to adjust the 'size, composition and duration' of the QE programme in the future, should EMU growth and inflation continue to disappoint; and the ECB might also change the deposit rate, currently being minus 0.2 percent (the German finance minister reiterated the opposition of his government to ECB's QE). Bond yields and the euro fell sharply after the ECB's President statement. Under such circumstances the ECB QE is being held back from stimulating investment and growth in the euro area, and also from pulling back inflation to its target.

In any case, it is equity finance that is needed to promote growth; but it is lacking. This is so since the equity basis of the EMU banking system has not been handled properly. The banks have had to raise their equity ratio thereby reducing their leverage ratio. The reduction in their leverage ratio has not helped them to recover from the financial crisis, thereby weakening their ability to provide equity finance.[4] As reported in the Financial Times (12 July, 2015), euro area banks have actually reduced their balance sheets in view of deleveraging. Bank-credit growth is not large. This looks set to continue despite the early optimism that QE would boost bank lending.

It is clear from the analysis in this section that there are serious problems with both the EMU fiscal and monetary policy. It is the case that the EMU's SGP, and the subsequent FC, as well

[4] Goodhart (2014) suggests that regulators should target Core Tier 1 capital, which is the numerator of the Capital Adequacy ratio (bank's capital as percentage of its risk weighted credit exposure), rather than the leverage ratio itself.

as the common monetary policy, have not acted as stabilising forces as had been argued by the proponents in the early 2000s. These problems have been shown to be serious, especially so by the emergence of the international 2007/2008 financial crisis and the ‘great recession’. More seriously, though, these problems are rooted in the absence of economic integration, and as such without a political union the EMU and the euro cannot have a good record of long-term survival (see, also, Arestis and Sawyer, 2012).

Effective political integration entails certain requirements from the point of view of economic policies, essentially fiscal and monetary ones. In terms of fiscal policy it is essential that EMU-level of expenditure programmes are in place, along with taxation and a social security system. A common social security system, which would enhance labour mobility and would involve elements of redistribution, is also paramount. Fiscal policy would likewise aid economic integration and would involve significant fiscal transfers between member states and regions. It is also the case that a common fiscal authority that issues debt in the currency under its control prevents destabilizing capital movements within the monetary union. In terms of monetary policy, the common currency of the EMU involves a degree of political agreement. Indeed, the ECB is already the only macroeconomic policy maker. But EMU requires considerable central government to operate fiscal and social security policies across the euro area.

The section that follows examines the extent to which political integration might emerge in the EMU as required in view of the ‘Five Presidents’ Report.

## 3. Would political integration emerge?

Our analysis so far has clearly shown that the need for a significant EMU fiscal policy is urgent, along with the question of whether political integration will emerge. The implementation of such a policy does require that the levels of tax revenues and of public expenditure, which come within the scope of EMU fiscal policy, and the balance between them (i.e. the budget deficit/surplus) is settled at the EMU level. It is though also remarkable how little attention has been paid by the EMU to the promotion of economic integration, which would produce convergence of economic conditions between the member countries, whether with respect to unemployment, positions in the business cycle or common inflationary and changes in competitiveness experience.

We try to answer the question in this section of whether political integration would emerge under these circumstances. But in no way should one underestimate the political, legal and ideological barriers, which are raised against policy changes along the lines indicated. But it is clear that the EMU cannot proceed with its current policy arrangements, and for those who strive for economic integration in the EU and political integration must realise that changes are urgently required ‘to save the euro’. Will political integration emerge? We attempt to answer this question in what follows.

A recent report of the European Commission (2015b; the ‘Five Presidents’ Report) on ‘Completing Europe’s Economic and Monetary Union’ by the year 2025, updates relevant plans that were proposed in the European Commission Report (2012; the ‘Four Presidents’ Report). The aim is to gradually achieve ‘a genuine economic and monetary union’, which would gradually evolve towards ‘Economic, Financial and Fiscal Union’.[5]

[5] The Five Presidents of the 2015 report were as follows: the Presidents of the European Commission, the European Council, the ECB, the EU Parliament and the Eurogroup. The Four Presidents of the 2012 report were the same with the exception of the EU Parliament one, who was not included in the latter report.

The 2012 report proposed closer integration in four main areas: Banking Union; closer integration of budgetary policies; better coordination of economic policies *other* than fiscal policy; and a strengthening of democratic legitimation and accountability. With the exception of the Banking Union objective, not much else was achieved. But even within the Banking Union driver not much has emerged. The only changes in the latter respect were the agreement on a new structure for prudential supervision of banks under the ECB pinnacle of national central banks and a common approach to resolving failing banks (the single resolution mechanism). Banking Union, along with common deposits insurance, is an important ingredient of the EMU. In the absence of political integration, a single currency within diverse states needs a Banking Union (Goodhart, 2014).[6] Such a union would greatly help to eliminate divergences among the euro area states and thereby help in the creation of EMU political integration.

The same broad headings remain in the new report (European Commission, 2015b), although some of the more contentious components have been dropped or toned-down in scope. The 2015 proposals contain two consecutive stages: the first stage (1 July 2015 – 30 June 2017), "would build on existing instruments and make the best possible use of the existing Treaties" (European Commission, 2015b, p. 5). In the second stage (mid-2017 to 2025), "concrete measures of a more far-reaching nature would be agreed to complete EMU's economic and institutional architecture" (European Commission, 2015b, p. 5).

Banking Union is probably the most important item of the report. The aim of the banking union is to achieve financial stability. This is to be achieved through improving bank regulation (involving rules in terms of what banks must, or may not do); through introducing a single supervisory mechanism (reinforcing the regulatory rules along with discretionary powers to control undue risk-taking and ensure adequate capitalisation; introduced in November 2014); also though introducing a single resolution mechanism (to enforce regulations and facilitate consistently the approach to supervision across the banking union; to be introduced as from January 2016); and through introducing deposit guarantees (the European Commission will review the current country ones by 2019 and decide on whether a single pan-European Deposit Guarantee Scheme should be set up).[7] The objectives of the Banking Union are to reduce financial risk and improve access to liquidity. Such a scheme is expected to improve confidence in banks and support growth in the EMU.[8]

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[6] Goodhart and Lee (2013) compare the euro area and the USA in terms of their "similar housing and financial shock in 2007/8" (p. 626) to conclude that unlike the USA badly-hit states (such as Arizona), which never needed a special bailout support, such concerns were prevalent in the euro area (such as Spain). Their suggestion of this difference is that this is entirely due to the USA having a banking union while the euro area is totally lacking it. The 'out-of-state' banks helped the adjustment of the banks in the troubled states. It should also be noted that fiscal transfers are also significant as in the case of the USA – but not in the euro area, where fiscal transfers do not exist. Eichengreen et al. (2014) compare another two USA badly-hit states, Nevada and Florida, with Ireland and Spain, another two badly-hit euro area states, and suggest that in the US, but not in the euro area, "The federal tax and transfer system provides a degree of automatic insulation from state-specific shocks. And the existence of a single bank resolution mechanism, the Federal Deposit Insurance Corporation, offers a degree of risk sharing when dealing with state-entered banking problems." (p. 233). Eichengreen et al. (op. cit.) also suggest that the absence of an EMU banking union is a problem. Goodhart and Lee (2013) reinforce this argument when they argue that the euro area "needs a banking union even more urgently than it needs a fiscal union" (p. 641).

[7] The German government is not in favour of the 'Deposit Guarantee Scheme', although the European Commission and the ECB promise to go ahead with the relevant plans of the Scheme (see, "Brussels to Press on with 'Depositors' Rescue Scheme", Financial Times, 22 October, 2015).

[8] This would be an important development in that it is the case that the current slow growth in the euro area is due to the inadequate strength of the banking system and the insufficient progress in writing down non-performing loans (see footnote 10).

Once the Banking Union is completed, a Capital Markets Union is to be launched for all the EMU members. Strengthening macroprudential supervision at the EMU level is also recommended (see, also, Goodhart, 2014; and Arestis, 2016). The Capital Markets Union was proposed initially in February 2015 (see European Commission, 2015a). The latter publication, the Green paper, "marks the beginning of a three month consultation. We want to hear from parliamentarians, member states, those who work in capital markets and from all groups concerned about jobs, growth and the interests of European citizens. That feed-back will help us to develop an action plan to put in place the building blocks for a fully functioning Capital Markets Union by 2019" (p. 3). In any case, "Compared to other parts of the world, European businesses remain heavily reliant on banks for funding and relatively less on capital markets. Stronger capital markets would complement banks as a source of financing and would: unlock more investment for all companies, especially Small and Medium-Sized Enterprises (SMEs), and for infrastructure projects; attract more investment into the EU from the rest of the world; and make the financial system more stable by opening up a wider range of funding sources" (European Commission, 2015a, p. 2).[9] It is true actually that Europe has traditionally been more dependent on bank lending, which makes the European economy, especially SMEs, more vulnerable when bank lending tightens, as the case was with the emergence of the international financial crisis of 2007/2008.[10]

In terms of fiscal policy the new report (European Commission, 2015b) emphasises the importance of fiscal discipline, referring to 'responsible budgetary policies'. In this sense the report proposes the creation of a fiscal stabilisation function for the euro area. However, such function "should be developed within the framework of the European Union" (European Commission, op. cit., p. 15). It is also suggested that the creation of a European Fiscal Board to conduct independent checks on the conduct of fiscal policy is important. However, this proposal "should not be conceived as a way to equalise incomes between Member States" (European Commission, op. cit., p. 15).

It is thereby recommended that "Responsible national fiscal policies are therefore essential. They must perform a double function: guaranteeing that public debt is sustainable and ensuring that fiscal automatic stabilisers can operate to cushion country-specific economic shocks" (European Commission, 2015b, p. 15). More important, though, is what the same Report clearly suggests; namely that "The Stability and Growth Pact remains the anchor for fiscal stability and confidence in the respect of our fiscal rules" (European Commission, op. cit., p. 18). This is in effect rule enforcement and not the macroeconomic stabilisation fiscal policy that is required in a proper political integration. More recently, and at their September 2015 summit meeting, the EU leaders merely 'took stock' of the 'Five Presidents' Report, suggesting that there is not much urgency behind it. It is also the case that their relevant statement on banking union in effect abandons its completion. Germany is in any case against a common insurance of bank deposits, without which proper banking union cannot emerge.

[9] Another relevant development is that the ECB has been buying Asset-Backed Securities (ASB) since November 2014. The European Commission unveiled regulatory proposals on 30 September 2015 designed to enhance the securitisation industry. This, it is thought, should form part of a 'capital markets union' in the sense that ABS can offer the opportunity to increase the flow of credit without necessarily over-increasing the banking sector leverage (as reported in the Financial Times, 'Europe faces challenges in bid to revive ABS', 01 October, 2015). The danger is that banks may use ABS to deleverage instead of increasing credit. A further danger is that such initiative could lead to another financial crisis of the type of the 2007/2008 international financial crisis (see, for example, Arestis, 2016).

[10] A further relevant problem is the non-performing loans. A non-performing loan is that on which the borrower is not making interest payments or repaying any of the principal. When a loan is classified as non-performing by the bank, and when it becomes bad debt, depends on local regulations. And as the IMF (2015) reports, "The financial crisis and deep recession have left many euro area countries with high levels of non-performing loans (NPLs) and corporate debt. For the euro area as a whole, NPLs stood at €932 billion (or 9.2 percent of GDP) at end-2014, more than double the level in 2009" (p. 57).

The implication then is that political integration is not an immediate objective with the finishing line still being too far. In any case, the ‘Five Presidents’ Report is not very different from the current EMU arrangements, as explained and criticised above. It is, therefore, the case that the EMU is far from a political integration scenario.

## 5. Summary and Conclusions

We have discussed relevant proposals for possible political EMU integration, the latest of which is the ‘Five Presidents’ Report on ‘Completing Europe’s Economic and Monetary Union’. Whether the latter and the relevant promised and forthcoming changes would produce satisfactory outcomes it is unfortunately a very sad expectation as argued in this contribution. Although the Five Presidents’ Report on the economic governance of the EMU with the focus on the need to promote real convergence, it is far from achieving economic or indeed political integration. As such the proposed changes are rather cosmetic ones, although the extent to which banking union is achieved is a way forward. It is also the case that obsession with rules rather than with sensible discretion does not help. Especially so under the current arrangements whereby the euro area’s closest federal institution, the ECB, and in the absence of political integration, is exposed to each of the 19 member countries of the EMU political pressures. This dimension makes the EMU a fragile institution.

Clearly then the measures as proposed in the ‘Five Presidents’ Report will not save the euro. It is undoubtedly the case that the euro experiment is going through a severe test. Indeed the recent experience with the ‘Greek crisis’ has demonstrated the importance of the EMU moving towards political integration. At the same time, however, such an idea has not found much support. EMU leaders are not yet ready for a proper political union; on the contrary, recent experience may have taken the EMU to its ‘slow-motion disintegration’.[11] The euro crisis continues.

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[11] There are exceptions, however. The French President in his piece on the 19th of July 2015, in France's Sunday paper, Le Journal Du Dimanche, put forward his vision for the future of the Euro Area: a government and a new parliament for the euro area countries to ensure its democratic control, and a shared budget. The French President repeated his view on the future of Europe at his speech to the European Parliament on the 7th of October 2015 (available at: https://www.google.co.uk/?gfe_rd=cr&ei=gVMaVtb9OouH8QfMgIHIAw&gws_rd=ssl#q=President+Hollande%27s+recent+speech+to+the+Brussels+Parliament). The President suggested that "Faced with these challenges, I am convinced that if we do not move ahead with integration, we shall stop or slip back". The French President, therefore, proposed that "consolidating the Euro area" in order to "coordinate policies, promote fiscal convergence and harmonisation, investment, and tax and social policy", adding that "Institutional choices will be necessary". Also, and as reported in the Financial Times (27 July, 2015), the Italian Finance Minister suggested that a political union, along with an urgent completion of banking union, would be the only way for the euro to survive. The finance minister conceded, however, that the trend is not quite towards this kind of development. Even more recently, the French Minister of Economy, Industry and Digital Affairs is reported in the Financial Times (25 September 2015) to have stated that the current set up of the EMU cannot survive. An EMU Parliament and a Treasury with a single finance minister, with a budget for making fiscal transfers to troubled countries, are desperately needed for its survival. The French Minister also argued that the Treasury should be overseen by the EMU Parliament.

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